PROSPECTUS

78,611,300 Shares

Virtusonics Corporation

Common Stock

Issuable Upon Exercise of Warrants

$.015 per share if exercised on or before July 31, 1987 and $.025 if exercised after July 31, 1987 until expiration

This Prospectus is being delivered to holders of 78,611,300 outstanding Common Stock Purchase Warrants ("Redeemable Warrants" or "Warrants") that were originally issued in August 1986 by Virtusonics Corporation, a Delaware corporation (the "Company") as part of the Company's public offering of units ("Units"), each Unit consisting of one share of Common Stock, $.00001 par value, of the Company (the "Common Stock") and one Redeemable Warrant. Each Redeemable Warrant represents the right to purchase one share of Common Stock at any time prior to 5:00 P.M. New York, N.Y. time on October 14, 1987, at an exercise price of $.015 per share if exercised on or before July 31, 1987, and $.025 per share if exercised after July 31, 1987. The Redeemable Warrants are redeemable, during the exercise period, by the Company at a price of $.0001 per Redeemable Warrant upon 30 day's notice to the registered holder, regardless of the price at which the Common Stock is then trading.

On June 5, 1987 the National Quotation Bureau reflected a $.015 bid for the the Units. There was no price quoted for either the Common Stock or the Warrants. See "DESCRIPTION OF SECURITIES—Warrants".

THE SHARES OF COMMON STOCK OFFERED HEREBY INVOLVE A HIGH DEGREE OF RISK. (See "RISK FACTORS.")

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Commissions	Proceeds to Issuer(1)
Per Share			
On or before July 31, 1987	$.015	$0	$.015
After July 31, 1987	$.025	$0	$.025
Total Assuming 100% exercise			
By July 31, 1987	$1,179,170	$0	$1,179,170
After July 31, 1987	$1,965,283	$0	$1,965,283

(1) Before deducting expenses of this offering estimated to be $50,000.

THE OFFERING OF THESE SECURITIES HAS BEEN QUALIFIED OR IS EXEMPT FROM QUALIFICATION UNDER THE LAWS OF THE STATES OF COLORADO, CONNECTICUT, DELAWARE, FLORIDA, GEORGIA, HAWAII, ILLINOIS, MARYLAND, NEVADA, NEW JERSEY, NEW YORK AND UTAH AND THE DISTRICT OF COLUMBIA. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES IN ANY OTHER STATE. RESIDENTS OF OTHER STATES SHOULD CONSULT THE DISCUSSION CONTAINED HEREIN UNDER THE HEADING "MANNER OF OFFERING."

The date of this Prospectus is June 19, 1987

HOW TO EXERCISE YOUR WARRANTS

The Warrants may be exercised in whole or in part by presentation and surrender at the principal corporate trust office of Corporate Stock Transfer, Inc., Suite 1000, 718 17th Street, Denver, Colorado 80202 of the following:

1. The Warrant Certificate(s) evidencing the Warrant(s) being exercised with the exercise form on the reverse of such certificate(s) duly completed and executed by the registered holder of the Warrant(s).

2. Payment in lawful money of the United States of America in cash or by official bank or certified check payable to Virtusonics Corporation in the amount of $.015 per share if on or before July 31, 1987 or $.025 per share if after July 31, 1987.

For more information concerning the Warrants and the exercise of such Warrants, including certain restrictions thereon, see "DESCRIPTION OF SECURITIES—Warrants" and "MANNER OF OFFERING."

ADDITIONAL INFORMATION

Virtusonics Corporation (the "Company") is subject to the informational requirements of the Securities Exchange Act of 1934, and in accordance therewith, files reports and other information with the Securities and Exchange Commission (the "Commission"). Further, the Company has filed with the Securities and Exchange Commission (the "Commission"), Jacob K. Javits Federal Building, 26 Federal Plaza, New York, NY 10278, a Registration Statement on Form S-18 under the Securities Act of 1933, as amended, (the "Securities Act" or the "Act"), with respect to the Units of which the Common Stock being offered herewith was a part. For further information with respect to the Company and the securities offered hereby, reference is made to the Registration Statement, including the Financial Statements and exhibits filed therewith. Statements contained in this Prospectus as to the contents of any contract or other document are not necessarily complete, and, in each instance, reference is made to the copy of such contract or document filed as an Exhibit to the Registration Statement, each such statement being qualified in all respects by such reference.

Any of such filings may be inspected and copied at the Public Reference facilities maintained by the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, at Everett McKinley Dirkson Building, 219 South Dearborn Street, Chicago, Illinois 60604, at Suite 1710, 10960 Wilshire Blvd., Los Angeles, California 90024 and at Jacob K. Javits Federal Building, 26 Federal Plaza, New York, NY 10278, and copies of such material may be obtained from the Public Reference facilities maintained by the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 upon payment of the prescribed fees.

The Company intends to furnish holders of its securities with annual reports containing financial statements of the Company examined by independent public accountants. The Company's fiscal year ends on June 30. In addition, the Company may issue unaudited quarterly reports or other interim reports as may be necessary to apprise shareholders of major developments concerning the Company.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and Financial Statements appearing elsewhere in this Prospectus.

THE COMPANY

Virtusonics Corporation (the "Company"), a Delaware Corporation was formed in July 1985, to arrange for, or engage in, the licensing, manufacture, marketing and distribution of certain computer software and other related products for home, business and on-line service computer markets to be developed and licensed to it by Enhanced Technology Associates, Inc. ("ETA"). ETA, a New York corporation, is the controlling shareholder and an affiliate of the Company. The Company intends, in the future, to expand its product line by entering into licenses with unaffiliated entities for the rights to market other computer related products. The Company began shipment of its initial version of VIRTUOSO® SOFTWARE, for use on certain Atari 8 bit computers, in May 1987. See "BUSINESS-Products". To date the Company has had limited operations and no significant revenues.

The Company has certain exclusive rights under a license agreement from ETA to manufacture and market four related products under development and to be developed. The products are VIRTUOSO® SOFTWARE, the initial version of which is currently being distributed by the Company, VIRTUOSO® MUSIC VIDEOS™, VIRTUOSO® MIDI MASTER™ and the VIRTUOSO® MAGIC MUSIC BOX™. Additionally, the Company has the right to market and sublicense the VIRTUOSO® Operating System to certain hardware manufacturers and on-line service entities. See "BUSINESS—Development and License Agreement".

The Company maintains its principal executive offices at 123 and 125 Duke Ellington Boulevard, New York, New York 10025, and its telephone number is 212-316-6744.

EXERCISE OF WARRANTS

Securities Offered	78,611,300 of shares of Common Stock issuable upon exercise of outstanding Redeemable Warrants
Offering Price:	
Until July 31, 1987	$.015 per share
July 31, 1987-October 14, 1987	$.025 per share
Shares to be Outstanding if all Warrants are Exercised	424,422,600 shares(1)

(1) Does not include (i) 20,000,000 shares subject to the Company's Incentive Stock Option Plan, of which options on 12,000,000 shares have been granted, (ii) options to purchase 2,500,000 shares granted to a consultant to the Company, (iii) 2,240,000 shares reserved for issuance upon conversion of certain outstanding Convertible Notes and (iv) up to 7,861,130 shares reserved for issuance upon the exercise of warrants issued to the underwriter of the public offering of the Company's Units.

Risk Factors and Dilution	The securities offered hereby involve a high degree of risk and are subject to immediate substantial dilution for investors in the Offering. See "RISK FACTORS".
Use of Proceeds	The net proceeds to the Company, after deduction of $50,000 of estimated expenses of the Offering, upon completion of the Offering, estimated to be $1,129,170 assuming 100% exercise of the Warrants at $.015 and $1,915,283 assuming 100% exercise of the Warrants at $.025 will be used for Product Development, Officers' Salaries, Repayment of Short Term Indebtedness, Sublease Payments and Working Capital.

SELECTED FINANCIAL INFORMATION

Balance Sheet	June 30, 1986	March 31, 1987
Total Assets	$ 120,999	$ 22,912
Total Stockholder's Equity (Deficiency)	$ (342,101)	$ (427,268)
Working Capital (Deficiency)	$ (463,100)	$ (405,593)

Income Statement	For the Period from Inception to June 30, 1986	Nine Months ended March 31, 1987
Revenues	0	0
Net (Loss)	$ (419,251)	$ (705,790)
Net (Loss) per share	$ (.0019)	$ (.0023)

RISK FACTORS

The Securities offered hereby involve a high degree of risk and are therefore speculative in nature and should not be purchased by persons who cannot afford the loss of their entire investment. In analyzing the Offering, prospective purchasers should carefully consider the risk and speculative factors inherent in and affecting the business of the Company and the value of the Common Stock including the following:

1. **New Venture; No Operating History and No Significant Revenues.** The Company was organized in July 1985 and has had no significant operating history nor significant revenues from operations. Further, due to the development stage of the products it anticipates marketing and distributing, the Company anticipates substantial losses in the forseeable future. The Company is a small new business and is subject to many of the risks common to such businesses including, but not limited to, undercapitalization, cash shortages and lack of market recognition. There is no assurance that the Company will operate profitably in the future. See "FINANCIAL STATEMENTS."

2. **Software Products Under Development.** The software products that the Company intends to market are in initial versions or the developmental stage and there is no assurance that they can or will be successfully improved or developed. See "BUSINESS—Development and License Agreement."

3. **Development of Software Products by ETA.** The Company is dependent upon the ability of Enhanced Technology Associates, Inc. ("ETA"), the controlling shareholder and an affiliate of the Company and the licensor to the Company of certain rights to certain software, presently under development and to be developed, to successfully complete the development of computer software that will operate on a sufficient universe of computers and attract a sufficient number of purchasers to enable the Company to operate profitably. ETA has limited financial resources. There can be no assurance that ETA will successfully complete the development of such software or if developed, when the development would be completed. See "BUSINESS—Relationship with ETA" and "BUSINESS—Development and License Agreement."

4. **Need For Additional Financing.** The Company will use the proceeds of the Offering primarily for development of additional products by ETA, for repayment of indebtedness, officers' salaries, sublease payments and for working capital. The Company believes that, assuming exercise of substantially all of the Warrants, the anticipated proceeds from the Offering will allow it to sustain operations for a period of at least twelve months from the date hereof. However, its continued operation following such period or during such period in the event that the proceeds are less than the Company anticipates from the Offering and/or are insufficient to sustain operations during such period, will be dependent upon the availability of positive cash flow from operations or its ability to raise additional funds. There can be no assurance that positive cash flow or additional financing would be available to the Company to meet its financial requirements. See "USE OF PROCEEDS" and "BUSINESS."

5. **Relationship with ETA.** Under the terms of the Development and License Agreement, ETA is paid a set fee on a monthly basis to develop computer software products that the Company intends to market. Therefore, ETA may be under an incentive to prolong the period in which it develops the computer software products. This conflicts with the best interests of the Company, as it is to the

Company's advantage to receive the products at the soonest possible opportunity. However, once the products are available for sale by the Company, ETA receives a royalty based upon the amount of the sales. See "BUSINESS—Relationship with ETA" and "BUSINESS—Development and License Agreement."

6. **Dependence Upon Key Personnel.** The possible success of the Company is highly dependent upon the personal efforts and abilities of certain of its Directors, officers and employees, particularly the technical expertise of Joseph Lyons, President, Secretary and Director, and Frank Schwartz, Director, the marketing expertise of Jack Godler, Vice President-Marketing, and the business expertise of Richard W. Lewis, Chief Executive Officer and Chief Financial Officer. The unavailability to the Company of Messrs. Lyons, Schwartz, Godler and/or Lewis and other employees of or consultants to the Company could have a material adverse effect upon the Company. See "MANAGEMENT."

7. **No Patent or Product Protection.** The Company and/or ETA has no patent protection for its existing products or services. While patent protection is being applied for on behalf of ETA, except in unusual circumstances, which may not apply to ETA, application computer software of the type developed, or to be developed, by ETA may not be patentable and, in such event, would have to be protected by copyrights, trade secret or contract. ETA intends to file for copyright registrations on its products, but no assurance can be given that such registrations will be granted or that, if granted, they will offer sufficiently broad protection to prevent others from copying the program functions. ETA has federally registered the trademark "VIRTUOSO". ETA may further attempt to obtain, as to subsequently developed products, copyrights on its software products, patents on its hardware or software products, and federal registrations for its trademarks. Attempts will also be made to protect software through trade secret and nondisclosure contract provisions in software license agreements and employment agreements. However, certain software can be readily duplicated illegally by anyone having access to the software media and appropriate hardware. Although ETA and the Company have taken normal precautions to protect their software, there can be no assurance that the Company can obtain effective protection against unauthorized duplication of its software or the introduction of substantially similar software. See "BUSINESS—Protection of Intellectual Property."

8. **Technological Obsolescence.** The computer software industry as a whole is subject to rapid technological innovation and change, and while management is not presently aware of any technology which would supplant or replace the products the Company intends to license, manufacture, market and distribute, it is always possible that future technological developments could make the Company's products less competitive or obsolete. See "BUSINESS—Competition."

9. **Highly Competitive.** The business of marketing and distributing software programs is highly competitive. The Company's competition includes many companies which have far greater capital, management resources, and experience than does the Company. There can be no assurance that the Company will be able to develop or sustain a competitive position in the industry. See "BUSINESS—Competition."

10. **No Customer Base.** Because the introduction of the initial version of the Company's first product has ocurred only recently, there is currently a small customer base and there can be no assurance that the Company will be able to market a sufficient quantity of its products at a prices that will allow the operations of the Company to be profitable. See "BUSINESS—Products."

11. **No Manufacturing Facilities.** The Company has no manufacturing facilities and is arranging for and relying on independent manufacturing firms to manufacture, assemble, and package the products licensed by ETA. There can be no assurance that the Company will be successful in its arrangments for the manufacture, assembly, and packaging of the products, or that any such arrangements will be sufficient to produce the necessary volume of products. See "BUSINESS—Manufacturing and Distribution."

12. **Royalties And Development Fees Payable to Affiliated Company.** The license agreement between ETA and the Company requires the Company to pay to ETA a royalty of 9% of the gross revenues received with respect to sales of products licensed to the Company. Such royalty is due without regard to the profits or losses of the Company. Further, the Company is required to pay to ETA a royalty of 2% of the Company's pre-tax profits as calculated before payment of any royalties. Additionally, the Company is required to pay to ETA with respect to the agreement the sum of $25,000 per month until April 1988, or until the delivery of the VIRTUOSO MAGIC MUSIC BOX, whichever is earlier, and for development with respect to certain markets granted under the license, an amount equal to 10% over the costs of ETA. If the Company is in default as to any term of the agreement, including the making of the above payments, ETA may terminate the agreement. See "BUSINESS—Development and License Agreement."

13. **Payment From Proceeds to Principals of the Company.** The Company will pay as annual salary to three individuals who are considered principals of the Company, the aggregate amount of $133,000 out of the proceeds of the Offering. The Company will also pay rental monies in the amount of $48,000 for the next twelve-month period to Joseph Lyons, President of the Company, pursuant to a sublease for the Company's office space in addition to $20,000 of rent currently in arrears. Such amounts due to Mr. Lyons are equal to the amounts due from Mr. Lyons to the landlord pursuant to a month-to-month lease entered into by Mr. Lyons for the space. Further, pursuant to the License and Development Agreement, the Company will pay to ETA, the $90,000 that it is currently in arrears plus an aggregate of $275,000 through April 1988 to enable ETA to work on additional versions of the Company's initial product including a 16 bit version for the IBM, Commodore, Atari* and other personal computers and on development of the additional products. In the aggregate, the Company will pay from the Offering to affiliates of the Company approximately 50.1% of the net proceeds assuming exercise of 100% of the Warrants at $.015 and 29.6% of the net proceeds assuming exercise of 100% of the Warrants at %.025 and may pay up to 100% of the net proceeds if fewer Warrants are exercised. Additionally the Company will pay an aggregate of $140,000 it owes to certain persons, most of whom are shareholders of the Company, pursuant to Promissory Notes executed by it. See "USE OF PROCEEDS", "BUSINESS—Development and License Agreement" and "CERTAIN TRANSACTIONS."

14. **Uncertainty of Offering.** The Company believes that it will require the receipt of substantial proceeds from the Offering to satisfy its basic cash needs and pursue its business plan. There can be no assurance that the Redeemable Warrants will be exercised in sufficient quantities to result in receipt by the Company of such proceeds, or that alternative financing sources can be found. The Company does not intend to place the proceeds of the Offering in escrow pending receipt

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* The names IBM, Commodore, and Atari are the registered trademarks of Atari Corp., Commodore Electronics Limited, International Business Machines, Inc., respectively.

of any specified minimum amount. Accordingly, Warrantholders who exercise their Redeemable Warrants will not be entitled to any refund of their investments even if insufficient proceed are raised to allow the Company to proceed with its business plan or to fund current operations. See "USE OF PROCEEDS".

15. **Conflicts of Interest.** Two of the three officers and three of the four Directors of the Company are officers, Directors and principal shareholders of ETA, and will devote some of their time to the operations of ETA. ETA may, subject to the rights with respect to certain products and a limited right of first refusal granted to the Company in the Development and License Agreement entered into with ETA, pursue certain opportunities which may be deemed to compete with the Company. Additionally, the Development and License Agreement with ETA may not be deemed an arms-length transaction and may contain terms less favorable to the Company than would an agreement negotiated between the Company and an unaffiliated party. See "CERTAIN TRANSACTIONS"; "BUSINESS—Relationship with ETA"; and "BUSINESS—Development and License Agreement."

16. **Control by Present Shareholders.** The non-public shareholders of the Company will own a majority of the outstanding Common Stock after the Offering and will therefore be able to elect all of the Company's Directors, and control the Company's affairs and operations. The Company's officers and Directors will own, directly or indirectly, 37.5% of the outstanding Common Stock of the Company, assuming 100% exercise of the Redeemable Warrants, and will probably be able to elect the Company's Directors, and control the Company's affairs and operations. See "PRINCIPAL SHAREHOLDERS."

17. **Recent Sales and Issuance of Common Stock at Less Than Public Offering Price.** In August 1985, the Company sold 200,000,000 shares of Common Stock for a total consideration of $2,000 or $.00001 per share to certain persons, including ETA, the controlling shareholder and an affiliate of the Company. Subsequently, certain of such persons sold 17,500,000 shares back to the Company for an aggregate sales price of $175. In September 1985, the Company sold 25,000,000 shares of Common Stock for a total consideration of $75,000 or $.003 per share to certain persons unaffiliated with the Company. In November 1985, the Company sold 10,000,000 shares of Common Stock for a total consideration of $100 or $.00001 per share to certain persons in conjunction with their loaning the Company an aggregate of $100,000 at an interest rate equal to 2% over the applicable prime rate. Subsequently, certain of such persons sold 4,000,000 shares back to the Company for an aggregate sales price of $40. In March 1986, the Company sold 11,500,000 shares of the Company's Common Stock for a total consideration of $115. In February and March, 1986, ETA sold an aggregate of 8,000,000 shares of the Company's Common Stock for aggregate consideration of $80 to certain persons. As additional consideration certain of these persons loaned the Company an aggregate of $75,000 at an interest rate of 12% per annum. The principal of both loans ($175,000) was repaid from the proceeds of the Company's initial public offering. In April of 1986, the Company sold 15,000,000 shares of its Common Stock for an aggregate consideration of $150 to an officer of the Company. In January of 1987, the Company sold 5,000,000 shares of its Common Stock for an aggregate consideration of $1,000 to a consultant to the Company. In February-April 1987, the Company sold an aggregate of $56,000 Convertible Notes to certain individuals, such Notes being convertible into Common Stock at $.025 per share. In April 1987, the Company sold 1,200,000 shares of its Common Stock to an employee for an aggregate of $12,000 and an aggregate of 12,000,000 shares of its Common Stock to two consultants to the Company in consideration of the payment of an aggregate of $120 and the rendering of services. In May 1987, the Company sold an aggregate of 9,000,000 shares of its Common Stock for an aggregate

consideration of $90 to certain persons who loaned the Company an aggregate of $105,000 at an annual interest rate of 10%, such loans to be repayed out of the proceeds of the Offering. See "PRINCIPAL SHAREHOLDERS", "CERTAIN TRANSACTIONS" and "USE OF PROCEEDS."

18. **Immediate Substantial Dilution.** The Offering involves an immediate substantial dilution in net tangible book value to the investors in the Offering. Further, such investors will have contributed a substantially disproportionate portion of the capital of the Company compared to the equity that they will own in the Company.

19. **Problems with the Public Market of the Company's Securities.** There is presently a public market for the Company's Units, but to date there has not been a public market for its Common Stock or Reedemable Warrants and there can be no assurance that a market will develop at the conclusion of the Offering or thereafter. Investors may therefore incur substantial difficulty in selling their Common Stock should they desire to do so. For various reasons, including problems encountered in reselling low-priced securities, investors may incur such difficulty even if a market should develop. Furthermore, it is likely to be difficult for investors to borrow funds using the Units, Common Stock or Warrants as collateral. See "MANNER OF OFFERING."

20. **No Dividends.** The Company has not paid dividends on its Common Stock and, for the foreseeable future, the Company does not anticipate that it will pay dividends on its Common Stock. Investors who require dividends from their investments should not purchase the Common Stock offered hereby. See "DESCRIPTION OF SECURITIES—Common Stock."

21. **Warrants Subject to Redemption.** The Warrants are redeemable at a price of $.0001 per Warrant at the option of the Company, upon 30 days' notice to the registered holders of the Warrants. The Company may at any time during the exercise period of the Warrants cause such persons to either exercise the Warrants or, upon the payment of $.0001 per Warrant, lose the right to exercise the Warrants in the future. See "DESCRIPTION OF SECURITIES—Warrants."

22. **Further Dilution.** The Company has issued, to the Underwriter of its Units, for nominal consideration, warrants (the "Underwriter's Purchase Warrants") to purchase shares of Common Stock equal in number to 10% of the Units sold in the Offering. The Underwriter's Purchase Warrants are exercisable until April 14, 1991 at an exercise price of $.013 per Share (30% above the initial public offering price for the Units). The Underwriter's Purchase Warrants may be exercised at a time when the Company might be able to obtain additional equity capital on terms more favorable than those provided by such warrants. The Company has also agreed to register the Common Stock issuable upon exercise of such warrants to permit resale. Exercise of such registration rights could involve substantial expense to the Company and may prove to be a hindrance to future financings by the Company. Further, the Company has issued additional options to buy Common Stock at prices varying from $.02 to $.05 per share, and Convertible Securities that are convertible into Common Stock at $.025 per share. See "CERTAIN TRANSACTIONS" and "MANAGEMENT—1986 Incentive Stock Option Plan."

23. **Public will Bear Risk of Loss.** The capital required by the Company to continue operations and carry on its business is being sought primarily from the proceeds of this Offering. Therefore, the investors will bear most of the risk of the Company's losses until such time as it operates profitably, if ever. See "USE OF PROCEEDS."

24. **Shares Available for Future Sale.** The Company currently has 267,200,000 shares of Common Stock outstanding which are not held by the public and which are "restricted securities" and under circumstances may, in the future, be sold in compliance with Rule 144 adopted under the Securities Act of 1933. Future sales of those shares under Rule 144 could depress the market price of the Common Stock.

25. **Possible Inability to Exercise Warrants.** Warrant holders residing in those states where the Offering is neither registered nor exempt from registration are prohibited from exercising the Warrants and would have no choice but to attempt to sell their Warrants or to let them expire unexercised. Also, it is possible that the Company may be unable, for unforseen reasons, to cause a Registration Statement covering the shares underlying the Warrants to be in effect during the entire remaining period that the Warrants are exercisable. In that event the Warrants may expire unless extended by the Company because of the requirement that a Registration Statement must be in effect in order for Warrant holders to exercise their Warrants. See "MANNER OF OFFERING" and "DESCRIPTION OF SECURITIES—Warrants."

PRICE RANGE OF THE COMPANY'S SECURITIES

In August 1986, the Company, in its initial public offering, sold 78,611,300 units ("Units"). Each Unit consisted of one share of the Company's Common Stock ($.00001 par value) and one Redeemable Warrant to purchase one share of Common Stock. See "DESCRIPTION OF SECURITIES". The Company's Units are traded in the over-the-counter market where trading began in August 1986. While the shares of Common Stock and the Redeemable Warrants comprising the Units are separable and therefore capable of being traded independently, to date no significant trading has occurred in either of them independent of the other. *The following table sets forth the range of high and low bids for the Units for the calendar periods indicated, reflects inter-dealer prices without retail mark-up, mark-down or commission, based upon information furnished by the National Quotation Bureau and may not necessarily represent actual transactions:*

	High Bid	Low Bid
1986		
Third Quarter (Commencing August)	$.0125	$.01
Fourth Quarter	$.02	$.0125
1987		
First Quarter	$.02	$.01
Second Quarter (through June 5, 1987)	$.015	$.015

On June 5, 1987 the National Quotation Bureau reflected a $.015 bid for the Units.

The number of holders of record of the Company's Common Stock and of the Company's Warrants on April 30, 1987 was 5,213 and 401, respectively.

USE OF PROCEEDS

Net proceeds from the Offering, assuming 100% of the Redeemable Warrants are exercised at $.015 is estimated to be $1,129,170 after deduction of an estimated $50,000 of expenses in connection

with the Offering. Net proceeds from the Offering, assuming 100% of the Redeemable Warrants are exercised at $.025 is estimated to be $1,915,283 after deduction of an estimated $50,000 of expenses in connection with the Offering. The Company intends to use the net proceeds as follows:

	Assuming exercise of 100% of the Warrants at $.015 per share		Assuming exercise of 100% of the Warrants at $.025 per share	
	Amount	%	Amount	%
Product development(1)	$ 365,000	32.3%	$ 365,000	19.1%
Repayment of indebtedness(2)	140,000	12.4	140,000	7.3
Officers' salaries(3)	133,000	11.8	133,000	6.9
Sublease payments(4)	68,000	6.0	68,000	3.6
Working Capital	423,170	37.5	1,209,283	63.1
Total	$1,129,170	100.0%	$1,915,283	100.0%

The Company believes that it will require the receipt of substantial proceeds from the Offering to satisfy its basic cash needs and pursue its business plan. There can be no assurance that the Redeemable Warrants will be exercised in sufficient quantities to result in receipt by the Company of such proceeds, or that alternative financing sources can be found. The Company does not intend to place the proceeds of the Offering in escrow pending receipt of any specified minimum amount. Accordingly, Warrantholders who exercise their Redeemable Warrants will not be entitled to any refund of their investments even if insufficient proceeds are raised to allow the Company to proceed with its business plan or to fund current operations.

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(1) Product development expenses consist of payments to be made to ETA pursuant to the Development and License Agreement of $25,000 per month through April 1988. Additionally, the Company owes ETA $90,000 for the four months ending May 31, 1987.

(2) The Company will repay an aggregate of $55,000, of which $35,000 was loaned by certain individuals to the Company in March, 1987 for which they are to receive interest at the rate of 2% over the prime rate, and an aggregate of $20,000 was loaned by an individual to the Company during January and February, 1987 for which the Company, in May 1987, sold him 2,000,000 shares of its Common Stock for an aggregate consideration of $20 and is to pay him interest at the annual rate of 10%. In May 1987, the Company borrowed an additional aggregate of $85,000 from certain persons in consideration of (i) selling such persons an aggregate of 7,000,000 shares of its Common Stock at an aggregate purchase price of $70, (ii) granting one of such entities a right of first refusal for the use of VIRTUSONICS® SOFTWARE for the architectural market and (iii) interest at the annual rate of 10%. The Company intends to repay the entire $140,000 out of the proceeds of the Offering.

(3) Officers salaries are $50,000 to Richard W. Lewis, $48,000 to Jack Godler and $35,000 to Joseph Lyons on an annual basis for the period following the date hereof. See "MANAGEMENT—Remuneration."

(4) Such payments are made to Joseph Lyons, President of the Company, pursuant to a month-to-month sublease between Mr. Lyons and the Company in the amount of $4,000 per month, the amount due from Mr. Lyons to the landlord of the Company's offices. The Company is currently $20,000 in arrears with respect to such payments. See "CERTAIN TRANSACTIONS."

CAPITALIZATION

The capitalization of the Company as of March 31, 1987 is as follows:

	Amount Outstanding as of March 31, 1987(1)
Commitment(2)	0
Promissory Notes Payable(3)	$ 55,000
Convertible Subordinated Notes	$ 36,000
	$ 91,000
Stockholder's Equity:	
Common Shares, par value $.00001 per share (500,000,000 shares authorized)(1)	$ 3,236
Additional Paid-in Capital	$ 694,937
(Deficit)	$ (1,125,041)
	$ (427,268)

(1) Does not include (i) 22,200,000 shares sold by the Company subsequent to March 31, 1987, (ii) 20,000,000 shares subject to the Company's Incentive Stock Option Plan, of which options on 12,000,000 shares have been granted, (iii) options to purchase 2,500,000 shares granted to a consultant to the Company, (iv) 2,240,000 Shares reserved for issuance upon conversion of certain outstanding Convertible Notes and (v) up to 7,861,130 shares reserved for issuance upon the exercise of warrants issued to the underwriter of the public offering of the Company's Units.

(2) Reference is made to "BUSINESS—Facilities" for information concerning the Company's leasehold obligations, which currently are on a month-to-month basis.

(3) Principal of short term loans made to the Company. See "USE OF PROCEEDS".

BUSINESS

The Company

Virtusonics Corporation (the "Company") was organized as a Delaware corporation on July 2, 1985, to arrange for or engage in the licensing, manufacture, marketing and distribution of certain software and other related products for home, business and on-line service computer markets developed and to be developed and licensed to it by Enhanced Technology Associates, Inc. ("ETA"), the controlling shareholder and an affiliate of the Company. See "BUSINESS—Development and License Agreement." It is the intention of the Company, to expand its product line at sometime in the future by entering into licenses with unaffiliated entities for the rights to market other computer related products, but there can be no assurance that it will be able to do so. The Company is presently distributing the initial product under the ETA license, a version of VIRTUOSO® SOFTWARE which operates on Atari models 800XL, 65XE and 130XE, primarily to the home computer market.

Development and License Agreement

The Company has entered into a Development and License Agreement with ETA with respect to four products under development. The agreement contains no assurances that all of the products will be successfully developed by ETA or, if developed, when they will be completed. The agreement grants the Company the exclusive license, worldwide to manufacture, market and distribute the products when completed. The products are VIRTUOSO® SOFTWARE, VIRTUOSO® MUSIC VIDEOS™, VIRTUOSO® MIDI MASTER™, and the VIRTUOSO® MAGIC MUSIC BOX™. See "BUSINESS—Products." ETA has made no attempt to manufacture, market or distribute the products. The agreement also provides (i) a license to market and sublicense the VIRTUOSO® Operating System to certain hardware manufacturers and on-line service entities and (ii) a right of first refusal to the Company with respect to the rights to manufacture, market and distribute additional products, if any, developed by ETA which are for use in the home or business computer market (provided such products do not relate to industrial, manufacturing, military or defense markets). The right of first refusal terminates on September 30, 1995. ETA, during the period ending September 30, 1995 may not distribute its own products in the markets covered by the right of first refusal.

Pursuant to the agreement, the Company shall pay ETA a royalty equal to (i) 9% of the gross revenues received by the Company in connection with its use, manufacturing, marketing and subleasing of the products, plus (ii) 2% of the Company's net profits, before taxes. In addition to the royalty, the Company is to pay with respect to the license, the sum of $15,000 per month for seven months commencing October 1, 1985 and $25,000 per month thereafter for 24 months or until the delivery of the VIRTUOSO MAGIC MUSIC BOX, whichever is earlier, and, the Company shall pay ETA on a cost plus 10% basis for work done in connection with the development or modification of the VIRTUOSO® operating system or V-Protocol. Additionally, ETA is expected to benefit from knowledge gained in the process of developing the products.

Pursuant to the agreement, ETA disclaims all warranties, express or implied, and all liability in connection with the delivery, use or performance of the products, for consequential, exemplary or incidental damages. ETA further limits its liability to the Company for all claims of any kind arising out of the agreement (except for claims regarding the infringement or patent, copyright or other proprietary rights) to the total amount of royalties paid by the Company to ETA under the agreement during the twelve months immediately preceding the date the first claim arose.

ETA is not limited or restricted from developing new products, whether or not based on the concepts, techniques, know-how or technology contained in the four products being licensed to the Company or from marketing or otherwise exploiting such products provided that, if they do so through third parties, they are subject to the Company's right of first refusal noted above.

The Development and License Agreement may be terminated by ETA if (i) the Company fails to cure a material breach of the agreement after thirty (30) days' written notice thereof or (ii) the Company ceases to conduct business in the normal course of events, becomes insolvent, or is otherwise the subject of a proceeding under any law relating to bankruptcy, insolvency or the protection of creditors.

The foregoing is not a complete description of all the details of the Development and License Agreement between the Company and ETA, a copy of which has been filed with the SEC as an exhibit with the Registration Statement in connection with the Offering. In view of the relationship between the Company and ETA, the Development and License Agreement may not be deemed to be an arms-length transaction and may contain terms differing from those that might be contained in a development and license agreement between non-affiliated entities.

Relationship with ETA

ETA, a New York corporation, was organized in December 1984 by Joseph Lyons, President and a Director of the Company, Frank Schwartz, a Director of the Company and Richard W. Lewis, Chairman of the Board and a Director of the Company for the purpose of engaging in research and development begun by Messrs. Lyons and Schwartz in 1978 with respect to various technologies for the representation, control, analysis and reproduction of audio information in both digital and analog formats. The Company was organized in July 1985 by ETA and others to arrange for, and to engage in, the licensing, manufacture, marketing and distribution of certain products to be developed by ETA and others. Three of the Company's four directors are also directors of ETA, which has one additional director. Two of the three officers of the Company are also officers of ETA. Richard W. Lewis, Chairman of the Board, Chief Executive Officer, Chief Financial Officer and Treasurer of the Company, is the Chairman of the Board and Chief Executive Officer of ETA and Joseph Lyons, President, Secretary and a Director of the Company is the President, Secretary and a Director of ETA. Pursuant to their employment agreements with the Company, the two common officers may devote such time as they deem advisable to ETA, but both are obligated to devote a minimum of thirty hours per week to the Company. See "BUSINESS—Employees" and "BUSINESS—Management."

The Company and ETA each occupies space at 123-125 Duke Ellington Boulevard, New York, New York, pursuant to subleases from Joseph Lyons. The rental charged to each is the amount of rent charged to Mr. Lyons under his leases with the landlord. However, Mr. Lyons resides in such occupied space at no cost to him. See "BUSINESS—Facilities."

Prior to the Offering ETA owned approximately 38.15% of the Company's issued and outstanding Common Stock. Assuming exercise of 100% of the Redeemable Warrants, ETA will own approximately 30.93% of the Common Stock. See "PRINCIPAL SHAREHOLDERS."

Industry Background

The Company is presently distributing the initial product under the ETA license, a version of VIRTUOSO® SOFTWARE which operates on Atari models 800XL, 65XE and 130XE, primarily to the home computer market. A home computer is a personal computer designed to be used primarily in

the home and not for on site commercial, industrial or military applications. The Company has been informed by certain persons in the computer industry and believes that through 1986, approximately 11 million home computers had been sold in the United States, of which approximately 6,000,000 were sold by Atari Corp. and Commodore Electronics Ltd. and are compatible with the Company's products. Because of the quantity of home computers, a significant market for home computing software has been created. In the competition for a share of the general software market, various manufacturers have developed software in several different areas (e.g. accounting, word processing, graphics, etc.). However, because research and development has been concentrated on products for commercial use, there has been less emphasis on the home computing market. Thus, while software has been created for office and commercial use which offers word processing programs or data bases with graphics and spread sheet capabilities as an integrated system, there are fewer and less sophisticated products available for home use. Software products that offer some integration for the home computing market are available but are moderately expensive and do not offer the variety of functions and capability available in commercial products. It is anticipated that the demand for home computers and accessories will create a demand for more sophisticated software, requiring integration of several functions. Over the last several years, manufacturers' attempts to create more versatile integrated software systems for home users have accelerated but the Company does not believe that such attempts have yielded products comparable to the Company's products. See "BUSINESS—Products" and "BUSINESS—Competition."

Existing Software

Generally, the home computer user desiring to utilize the equipment for a variety of functions is currently required to purchase individual software packages for each task. For example, if the user desires to design a graphic display as well as work on a word narrative to accompany the graphics, the user must change disks in order to work on the word narrative. An integrated operating system allowing a variety of operating modes within the same package has generally eluded the home computing market. While many manufacturers offer products that combine multiple functions, such products would probably not be considered operating systems integrating such diverse functions as music, graphics animation, text editing and telephone communication. However, the Company believes that its controlling shareholder and affiliate, ETA, has designed such an integrated system.

Products

With the exception of the VIRTUOSO® MAGIC MUSIC BOX™, design has been completed and development is currently being pursued on all of the products described below. No assurance can be given that all of these products will be developed or, if developed, will be commercially successful. The Company began shipment of its initial version of VIRTUOSO® SOFTWARE, for use on certain Atari 8 bit computers, in May 1987. To date, the Company has shipped an aggregate of 100 copies of such version; 50 to purchasers who ordered in response to the Company's Fall 1986 direct marketing campaign, and the balance as demonstration copies to magazine reviewers and certain software distributors and dealers. The Company anticipates release of an updated version thereof, including telecommunications protocol, in July 1987. The Company anticipates that the VIRTUOSO® MUSIC VIDEOS™ will also be available in July 1987. The Company further anticipates that the VIRTUOSO® SOFTWARE will be available for a large portion of the 16 bit (IBM PCs and compatibles, certain Apple models, Atari STs and Commodore Amiga, etc.) computer population by January 1988 and that the VIRTUOSO® MIDI MASTER™ will be introduced at the same time. Development of the VIRTUOSO® MAGIC MUSIC BOX™ is expected to be completed by January 1989. There can be no assurance that

design of such products will be completed or that the Company will be able to have any of the products manufactured or that the Company will be able to market them in sufficient quantities or at prices that allow the Company to be profitable.

VIRTUOSO® SOFTWARE. VIRTUOSO SOFTWARE is a multi-purpose; disk-based software language and operating system which can be used to compose, edit and play music, create and edit graphics, produce animated storyboards, write and edit text, and, in the revised version which the Company anticipates to be available in July 1987, have a telecommunications protocol that will enable the user to send and receive multi-media compositions from and to computers utilizing telephone modems and VIRTUOSO SOFTWARE. A United States Patent Application has been filed on certain aspects of the VIRTUOSO SOFTWARE. See "BUSINESS—Protection of Intellectual Property." The basis of the VIRTUOSO SOFTWARE system is the control capabilities of its proprietary software. In the initial version, which the Company is currently selling at a retail price of $49.95, the user can draw up to 11 graphic objects on the TV monitor and move each of them independently through VIRTUOSO SOFTWARE animation control. For example, the user could draw a scene of an aircraft moving across the sky over water using VIRTUOSO SOFTWARE animators to make both the water and the aicraft move in instant response to the user's commands. VIRTUOSO SOFTWARE can instruct the host computer to synchronize the user's graphics to the music and also intermix text with pictures and the music.

The Company believes that VIRTUOSO SOFTWARE is a new concept for looking at and controlling the activity of music. Through the application of real-time moving color graphics, elements of musical composition, e.g. notes, rhythms, tone quality, speed, volume, scale, can be displayed, edited immediately, and can be represented either in traditional music notation or in VIRTUOSO SOFTWARE's color symbol language.

Access to VIRTUOSO SOFTWARE can be made through the standard home computer keyboard and through the joystick ports of the home computer. The Company believes that the system is enhanced by having a joystick, touch tablet or other input device with the ability to provide access to the diverse functions of the VIRTUOSO SOFTWARE.

VIRTUOSO SOFTWARE will be provided to the user on a floppy disk that can be used with all the disk drives compatible with the appropriate computers. The Company expects to offer modifications of VIRTUOSO SOFTWARE to accommodate new developments in the consumer and educational markets.

VIRTUOSO® MUSIC VIDEOS™. The Company, pursuant to the Development and License Agreement and as a supplement and introduction to the VIRTUOSO SOFTWARE, will produce and distribute a series of VIRTUOSO MUSIC VIDEOS which will contain various musical compositions with animated graphics, playable on any Atari* 800XL, 65XE or 130XE or Commodore* 64 or 128 home computer. The VIRTUOSO MUSIC VIDEOS, a limited function version of VIRTUOSO SOFTWARE, will be created using the VIRTUOSO format and will have the same color displays and sound

* The names Atari, Commodore, IBM and Apple are the registered trademarks of Atari Corp., Commodore Electronics Limited, International Business Machines, Inc. and Apple Computer, Inc., respectively. The numbers and letters represent certain trademarks of computer models manufactured by them or their affiliates and sold to the public and are proprietary to such companies. None of such companies is affiliated with either the Company or ETA.

possibilities as VIRTUOSO SOFTWARE. The VIRTUOSO MUSIC VIDEOS will contain arrangements of various styles of musical compositions for user playback. The material on these disks will be derived from popular, classical and original selections.

The owners of Atari or Commodore home computers will be able to purchase VIRTUOSO MUSIC VIDEOS for their listening and viewing pleasure and will have access to the features of the VIRTUOSO language to control only the playback parameters of these disks. While VIRTUOSO SOFTWARE is not required for VIRTUOSO MUSIC VIDEOS playback, users of VIRTUOSO SOFTWARE will be able to utilize the full range of the software to explore, edit, and rearrange all of the compositions in the VIRTUOSO MUSIC VIDEO library.

Each VIRTUOSO MUSIC VIDEO will contain up to one hour of data for listening and viewing. At this time, it is anticipated that separate disks will be used for various kinds of music (*e.g.*, rock, popular, classic, baroque, and original).

VIRTUOSO® MIDI MASTER™. The majority of manufacturers of synthesizers and synthesizer keyboards are now providing access to their devices through a standardized set of electronic control protocols known as the Musical Instrument Digital Interface ("MIDI"). ETA has designed and presently has under development proprietary hardware that will provide cable interface and digital protocol between the host computer and external synthesizers utilizing MIDI. The combination of VIRTUOSO SOFTWARE and the VIRTUOSO MIDI hardware into a product named the VIRTUOSO MIDI MASTER will enable certain computers to interact with synthesizers. The user can compose and edit on the computer, and use the computer to control 12 or more independent synthesizers with VIRTUOSO SOFTWARE.

The VIRTUOSO MIDI MASTER will provide the music industry with a computer interface for composing and editing music. The features of VIRTUOSO SOFTWARE will be available to the user of Atari, Commodore, IBM*, IBM compatables and some computers manufactured by Apple* for controlling a variety of external synthesizers. The graphic capabilities of VIRTUOSO SOFTWARE will provide the user with a real-time color visualization of the music it creates, while the editing features of VIRTUOSO SOFTWARE will be available for the musician in both live and studio environments.

The VIRTUOSO MIDI MASTER will be developed to operate in the Atari 800XL/130XE and the Commodore 64/128 and certain computers manufactured by Apple, IBM and IBM compatibles. VIRTUOSO MIDI MASTER will also be designed to operate with the Atari STs or Commodore Amiga if, in the opinion of the Company, a sufficient market develops for these computers. The Company anticipates that the market for VIRTUOSO MIDI MASTER will be amateur and professional musicians, composers and recording studios.

THE VIRTUOSO® MAGIC MUSIC BOX™. The Company anticipates that an additional product, the VIRTUOSO MAGIC MUSIC BOX, will contain its own sound and graphic generation chips and will provide capabilities for 16 channels of audio output, high resolution graphics, text editing

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and telecommunications while the personal computer with which it will interface will be employed for access to disks used for storage and retrieval. The Company anticipates that VIRTUOSO MAGIC MUSIC BOX will provide the capability to use VIRTUOSO SOFTWARE with a broad range of existing computers, including those manufactured by IBM, Apple, AT&T, Tandy, Atari, Commodore, Compaq, and other PC-compatible models.

The Company expects that the sound quality of VIRTUOSO MAGIC MUSIC BOX will be comparable to that of currently existing synthesizers. The Company intends to develop a series of highly specialized VIRTUOSO PLAY MODE DISKS for use in conjunction with the VIRTUOSO MAGIC MUSIC BOX, each disk containing a number of complete musical compositions with the capacity to rearrange or otherwise change the musical scores as the user may desire while retaining the original score.

Marketing

Currently, computer software is sold principally by computer manufacturers, computer stores, department stores, consumer electronics stores, discount stores and mail order retailers.

The Company has targeted individuals who are (a) believed to possess appropriate computers and (b) are likely to be interested in using the VIRTUOSO SOFTWARE capabilities.

The Company expects to contact such individual consumers through direct marketing and promotional efforts, including magazine advertising and demonstrations of the products in concerts given to the public and to certain identified "user" groups. For example, the Company intends to initially target ATARI and COMMODORE home computer owners for the marketing of VIRTUOSO SOFTWARE by utilizing the Bulletin Board Systems, including those of the leading on-line services—Compuserve, GEnie and The Source—and the leading machine-specific computer user magazines, including *Antic*, *Commodore*, *Compute's Gazette*, *Analog*, and *Family Computing*. The Company believes that in the event that ATARI and/or COMMODORE cease manufacturing a material portion of their home computer products, there exists a significant market in current ATARI and/or COMMODORE users.

Further, some of the products will be compatible with Apple, IBM and other existing home personal computers. However, either ATARI or COMMODORE ceasing to manufacture home computer products could adversely affect the Company's sales potential.

Additionally, the Company intends to sell certain of its products through a network of distributors and dealers, that it intends to establish with the assistance of Covenant Marketing, a consultant to the Company. See "MANAGEMENT—Consulting Agreements".

The Company also intends to contact computer-using educators through advertising in professional magazines and appearances at selected conventions.

In addition to home entertainment and educational applications, the Company believes a market for the Company's products will exist with musicians, composers, recording studios and educational institutions. The Company intends to reach these markets by advertising, demonstrating at conventions and using marketing representatives.

Advertising

Because the Company had anticipated that the initial version of VIRTUOSO SOFTWARE system, would be available by January 1987, during the Fall of 1986, the Company placed advertising in the leading Atari and Commodore machine-specific computer-user magazines and in two magazines

directed at elementary and high school educators using computers. The ads were primarily two-page and in full color, gave a response telephone number and offered a starter set with Compuserve, a leading on-line service system. The Company received approximately 3,500 inquiries from the ads, but does not presently know how many of such inquiries will be converted into sales.

Simultaneous with the release of the initial version of VIRTUOSO SOFTWARE, the Company (i) sent copies of the product to appropriate magazine editors and other key individuals for their comments and reviews, (ii) initiated a public relations and publicity campaign and (iii) commenced appearing and demonstrating at meetings of individual "user groups" prior to launching a new advertising campaign in the Fall of 1987.

The Company hopes to receive favorable reviews of its initial product to assist it in its sales and licensing campaigns, but there can be no assurance that any reviews will be positive or that its advertising campaigns will lead to sufficient sales to be considered effective.

Contracts

The Company has no contracts for sales or licensing of the VIRTUOSO SOFTWARE technology but has had preliminary discussions with several potential licensee and distributors.

There can be no assurance that the Company will have any additional sales or that it will be able to license its technology to other users.

Competition

Many manufacturers currently have products with either individual or combinations of capabilities similar to some of the capabilities of the Company's products and would therefore be considered directly competitive to the Company. Some competing music products are Bank Street Music Writer, Advanced Music Systems I and II and Atari Music Construction Set. Some competing graphics products are Micropainter, Graphics Master and Visualizer. Some competing word processing products are Paper Clip and Letter Perfect. A competing animation product is Movie Maker. A competing telecommunications product is Homepak. Most of the manufacturers with which the Company competes and will compete possess far greater financial resources, manpower, name recognition and marketing channels than does the Company, and there is no assurance that the Company will be able to successfully compete with such manufacturers, or that those manufacturers or others will license the VIRTUOSO SOFTWARE technology.

While the Company believes that the VIRTUOSO SOFTWARE line of products if and when completed, (a) will possess unique capabilities of composing and editing music, (b) will be the only software that can produce separately or in various combinations graphics, text, animation, music compositions, sound and supporting telecommunications within a single system operable through a comparatively small computer and (c) will be less expensive than purchasing several independent packages to achieve some or all of what the VIRTUOSO SOFTWARE line of products can provide, technological change in these areas is rapid and it is unknown how long it might be before directly competitive products might appear.

Research and Development

The Company at present has no research and development department and has spent no funds directly in this area since inception. It is anticipated that, for the forseeable future, all design,

development and product improvement will be done by its controlling shareholder and affiliate, ETA. The Company is not permitted, without prior written approval of ETA, to make modifications, updates or enhancements to the products. The Company pays ETA certain amounts pursuant to a licensing agreement. See "BUSINESS—Development and License Agreement."

Protection of Intellectual Property

The Company has been advised a United States Patent has been applied for on behalf of ETA directed to certain aspects of its VIRTUOSO SOFTWARE Operating System, and that ETA intends to apply for other patents where it deems such protection to be potentially available. No assurance can be given that any such patents will be granted. In the interim, the Company and ETA are treating all proprietary materials as trade secrets, to the extent practicable, and each employs and will continue to employ procedures, techniques and contractual arrangements to protect its proprietary information to the best of its ability to do so. Nevertheless, no assurance can be given that such secrets can be maintained, or that competitors, through reverse engineering or other means, may not develop access to confidential aspects of the Company's products.

Management of ETA or the Company also plan, as appropriate, to register copyrights for the software programs and firmware components.

ETA has federally registered the trademark VIRTUOSO, and it plans to apply for registration of all of its other trademarks applied to its other products, at appropriate times. No assurance can be given that any such registrations will be granted.

Facilities

The Company subleases space, on a month-to-month basis, from Joseph Lyons, President and a Director of the Company, approximately 2,500 square feet of space located at 123 and 125 Duke Ellington Boulevard, New York, New York, at a rental of $48,000 annually. The principal offices of ETA are located at the same address. The Company expects that the Company's rent for the forseeable future will not exceed $60,000 annually. See "CERTAIN TRANSACTIONS."

Employees

The Company currently employs five persons on a substantially full-time basis, two of whom are officers and directors of the Company and are also officers and directors of ETA and one of whom is also an officer of the Company. The two employees of both ETA and the Company have employment contracts with the Company, pursuant to which they are permitted to devote some time to the business of ETA. Three employees are obligated to devote a minimum of 30 hours weekly to the Company. In addition, the Company employs two consultants on a substanially full time basis to assist in modifications to the "users' manual" and designing enhancements for the VIRTUOSO SOFTWARE. See "MANAGEMENT—Employment Agreements." The Company has never experienced a work stoppage and none of its employees are represented by a labor union.

LEGAL PROCEEDINGS

The Company is not a party to any legal proceedings, and to its knowledge, no such proceedings are contemplated or threatened.

MANAGEMENT

Directors and Executive Officers. The current Directors and officers of the Company are listed below with their ages and positions.

Name	Age	Position in Company
Richard W. Lewis*	45	Chief Executive Officer; Chairman of the Board of Directors; Chief Financial Officer and Treasurer
Joseph Lyons*	42	President, Secretary and Director
Jack Godler	56	Vice President—Marketing
Frank Schwartz*	35	Director
Charles H. Reddien	43	Director

* May be deemed to be "parents" or "promoters" of the Company, as those terms are defined in the Securities Act of 1933, as amended. See "CERTAIN TRANSACTIONS."

The Company has purchased and is the beneficiary of key-man life insurance covering Richard W. Lewis, Joseph Lyons and Frank Schwartz in the amount of $500,000 each.

Directors hold office until the next annual meeting of the shareholders of the Company and until their successors are duly chosen and qualified. Officers are elected by the Board of Directors.

Richard W. Lewis has a B.S. Degree in General Business and an M.B.A. in Finance from New York University. Prior to March 1981 Mr. Lewis was employed at International Paper Credit Corporation as the Business Development Manager. From April 1981 to November 1982, Mr. Lewis served as the head of the Leverage Acquisition Team at The Chase Manhattan Bank, N.A., a division that he had initiated. From November 1982 to November 1983, he started and served as Marketing Manager of Asset-Based Financing in the Retail Finance Department of General Electric Credit Corporation. From November 1983 to June 1985, Mr. Lewis served as a consultant to various clients with respect to venture capital, leverage acquisitions and financial affairs. In November 1984 Mr. Lewis became a partner in Enhanced Technology Associates Partnership. In December 1984 Mr. Lewis was elected Chairman of the Board of Directors and Chief Executive Officer and in April 1986 was elected Treasurer of ETA, the successor company of the partnership and an affiliate and controlling shareholder of the Company. He was elected Chairman of the Board of Directors and Chief Executive Officer of the Company in August 1985 and Chief Financial Officer and Treasurer of the Company in December 1985. Mr. Lewis devotes a minimum of thirty hours weekly to the affairs of the Company.

Joseph Lyons has a Masters of Music Degree from The Juilliard School and a Master of Arts Degree in Musicology/Theory from Queens College of the City University of New York. Mr. Lyons has performed as a conductor at, and was a member of the faculties of The Juilliard School from 1965 to 1968 and from 1970 to 1973 and the City University of New York from 1968 to 1973. From 1978 to July 1985, Mr. Lyons devoted his full time to the affairs of ETA and its predecessor entities. See "BUSINESS—Relationship with ETA." In December 1984, Mr. Lyons was elected President and a Director and in April 1986 was elected Secretary of ETA, an affiliate and the controlling shareholder of the Company. Mr. Lyons was elected President and a Director of the Company in August 1985 and Secretary in December 1985. Mr. Lyons devotes his full time to the affairs of ETA and the Company with a minimum of thirty hours weekly being devoted to the Company.

Jack Godler has a M.A. in political science from the University of Chicago and a B.A. from Brooklyn College. From 1965 to 1976 Mr. Godler was employed by *Newsweek* magazine where he became Sales Promotion Manager. From October 1976 to December 1978 he was Creative Director, Ad Sales Promotion for *Playboy* magazine. In January 1979 he established Jack Godler Associates to render marketing and promotional services primarily to the media. During the period from January 1979 to April 1983, Jack Godler Associates provided services to *Science 80-83* magazine, *The Sporting News* magazine, *Sport* magazine, *Psychology Today* magazine and *Working Woman* magazine. In April 1983 he founded *Computer Advertising News* magazine and served as its editor-publisher until it was sold in May 1985. From June 1985 to the present, Mr. Godler has served as a marketing and advertising consultant to The Information Industry Association and to *Instructor* magazine. In June 1985 Mr. Godler prepared advertising and promotional material for Microlog, a computer board firm. In July 1985 Mr. Godler prepared advertising and promotional material for BrainBank, an educational software firm. In September 1985 Mr. Godler was consultant to VNU publishing (Amsterdam, The Netherlands). Since November 1985, Mr. Godler has been a consultant to Univex, a sales, marketing and purchasing organization. In his capacity as consultant to these firms, Mr. Godler has developed marketing strategies, devised promotion tactics and produced the plans, ads, brochures and presentations relating thereto. On April 9, 1986 Mr. Godler was elected Vice President—Marketing of the Company.

Frank Schwartz was employed by Digital Equipment Corporation from December 1972 to November 1977 where he designed various operating systems for the PDP-11 minicomputer. From December 1977 to February 1979 Mr. Schwartz was employed by Automated Concepts Inc. where he participated in its design and implementation of process control and robotics systems. From March 1979 to September 1980 Mr. Schwartz was employed by Insac Viewdata, Inc., the U. S. subsidiary of Prestel, Ltd., U.K., where he designed and implemented a microprocessor system for Teletex editing and retrieval. Mr. Schwartz became an independent consultant for software engineering and systems consulting in September 1980. Mr. Schwartz acted as consultant to Johnson & Johnson, Dental Products Division until July 1981. During this period, Mr. Schwartz also consulted for Fiduciary Trust Company from October 1980 through February 1981, and Memorial Sloan Kettering Cancer Center from November 1980 through March 1985. Other than the foregoing, from 1978 to the present, Mr. Schwartz has devoted his full time to the affairs of ETA and its predecessor entities. See "BUSINESS—Relationship with ETA." In December 1984, Mr. Schwartz was elected Vice-President and a Director of ETA, an affiliate and the controlling shareholder of the Company. Mr. Schwartz was elected a Director of the Company in August 1985.

Charles H. Reddien, has been Chairman of the Board of Kalamath Group, a company with holdings in the field of natural resources, since February 1985. Mr. Reddien has been Chief Executive Officer and a Director of Heritage Group Ltd., a financial holding company, since June 1984 and has been Chief Executive Officer and a Director of A.B. James and Associates, Inc., an investment banking concern, since June 1985. Mr. Reddien was founder, managing partner and Chief Executive Officer of J.W. Gant & Associates, an Investment Banking Partnership from January 1984 to January 1985 and was a Registered Representative at that time. Mr. Reddien was President and Director of Orchard Group, Ltd., an investment banking holding company and J.W. Gant and Associates, Inc., an investment banking firm, from December 1982 to January 1984. He served as Chairman and President of The Heritage Group, Inc., an investment banking holding company, and was President and Secretary of Plans and Assistance, Inc., a management consulting firm from June 1982 to January 1984. Mr. Reddien was a special consultant to the partners of OTC Net, Inc., investment bankers, from

January 1981 to June 1982. OTC Net, Inc. ceased doing business on June 2, 1982. As a result of his affiliation, Mr. Reddien, together with all other principals and registered representatives of OTC Net, Inc., had his license suspended by the Division of Securities for the State of South Dakota on July 26, 1982 and revoked on September 14, 1982. He served as Project Manager and Data Processing Systems Manager with Hughes Aircraft Company from 1966 to 1981. He was in private law practice from 1972 through 1980 in California and Colorado, specializing in corporate and computer law. He co-authored the legal sections of "Software Engineering", published by the Prentice-Hall Publishing Company. He is listed in the *Who's Who of American Law,* 2nd and 3rd editions and *International Who's Who of Contemporary Achievement.* Mr. Reddien received his BS degree in Electrical Engineering from the University of Colorado, a Masters degree in Electrical Engineering from the University of Southern California and a Juris Doctorate from Loyola University School of Law.

Neither Mr. Reddien nor any firm with which he is affiliated will participate in the distribution.

Remuneration

No officer, Director or Group was paid more than $60,000 during the last fiscal year. The following table sets forth the aggregate cash compensation paid to or accrued by the Company during its fiscal year ended June 30, 1986 for all executive officers as a group:

Name	Cash Compensation
All executive officers as a group	$82,000

Richard W. Lewis has entered into an Employment Agreement whereby he will receive $50,000 per year as salary. Joseph Lyons has entered into an Employment Agreement whereby he will receive $35,000 per year as salary. Additionally, Mr. Lyons resides at the premises leased from him by the Company and thereby receives additional compensation valued at $11,500 per year. Mr. Godler has entered into an Employment Agreement whereby he receives $48,000 per year as salary and was permitted to purchase 15,000,000 shares of the Company's Common Stock at $.00001 per share and 1,200,000 shares of the Company's Common Stock at $.01 per share (the price deemed by the Company's Board of Directors to be the fair market value). Under certain circumstances, including the termination of his employment, the Company has the option to repurchase some of these shares. The aggregate salaries to the executives as a group is $133,000 and the aggregate compensation to be recieved by the executives, including rent to be paid pursuant to a sublease, is $201,000 plus amounts to be paid to ETA pursuant to the Development and License Agreement. See "BUSINESS—Facilities" and "BUSINESS—Development and License Agreement."

Employment Agreements

RICHARD W. LEWIS. The Company entered into an Employment Agreement with Richard W. Lewis , Chief Executive Officer, Chairman of the Board, Chief Financial Officer and Treasurer, effective October 1, 1985 and expiring on December 31, 1987. Pursuant to the contract Mr. Lewis will devote a minimum of 30 hours per week to the performance of his duties as designated by the Board of Directors and will receive a salary of $50,000 per year. Any salary increase or bonus granted would be at the discretion of the Board of Directors. Other than through his affiliation with ETA, Mr. Lewis has agreed, for the period of the term of his Employment Agreement and for one year after termination of such employment, not to enter into certain activities which are deemed to compete with the products

of Virtusonics. Mr. Lewis has also agreed not to in any way or at any time, without the prior written approval of the Company, divulge the confidential information of the Company.

JOSEPH LYONS. The Company entered into an Employment Agreement with Joseph Lyons, President, Secretary and a Director, effective October 1, 1985 and expiring on December 31, 1987. Pursuant to the contract Mr. Lyons will devote a minimum of 30 hours per week to the performance of his duties as designated by the Board of Directors and will receive a salary of $35,000 per year. Any salary increase or bonus granted would be at the discretion of the Board of Directors. Other than through his affiliation with ETA, Mr. Lyons has agreed, for the period of the term of his Employment Agreement and for one year after termination of such employment, not to enter into certain activities which are deemed to compete with the products of Virtusonics. Mr. Lyons has also agreed not to in any way or at any time, without the prior written approval of the Company, divulge the confidential information of the Company.

JACK GODLER. The Company entered into an employment agreement with Jack Godler, Vice President—Marketing, on April 9, 1986 and expiring December 31, 1988. Pursuant to the contract Mr. Godler will devote a minimum of 30 hours per week to the performance of his duties as designated by the Board of Directors. Mr. Godler will receive a salary of $48,000 per year and was permitted to purchase 15,000,000 shares of the Company's Common Stock at $.00001 per share and 1,200,000 shares of the Company's Common Stock at $.01 per share. In certain circumstances, including the termination of his employment, the Company has the option to repurchase shares of stock sold to Mr. Godler at $.00001 per share. Any salary increase or bonus granted would be at the discretion of the Board of Directors. Pursuant to the contract, Mr. Godler has agreed, for the period of the term of his Employment Agreement and for one year after termination of such employment, not to enter into certain activities which are deemed to compete with the products of Virtusonics. Mr. Godler has also agreed not to in any way or at any time, without the prior written approval of the Company, divulge the confidential information of the Company.

Consulting Agreements

On January, 1987, the Company entered into an agreement with The Cavior Organization, Inc., a New York corporation ("TCO") whereby TCO has been retained by the Company to create a public relations program for the Company at the corporate and product level and incorporate it into a financial public relations program. In addition to reimbursement for out of pocket expenses, TCO received a monthly fee of $800 for January-March, 1987 and is to receive a monthly fee of $2500 for the six months April-September, 1987. The contract is renewable on a yearly basis at the monthly fee of $2500 subject to 30 days' notice of termination by either party. Additionally, the Company sold TCO 5,000,000 shares of the Company's Common Stock at $.0002 per share ($1,000) and granted TCO a two-year option on an additional 2,500,000 shares of the Company's Common Stock at $.05 per share. All such shares are to be eligible for registration under the Securities Act of 1933 in conjunction with any other registration statement under such act filed by the Company.

In April, 1987, the Company entered into an agreement with Yale Hirsch, whereby Mr. Hirsch was employed as a financial consultant to the Company for a period of two years. Mr. Hirsch's duties shall include advising the Company as to all financial and related matters as requested by the Company from time to time so long as Mr. Hirsch is not required to devote more than an aggregate of 20 hours per month to the affairs of the Company. In lieu of cash fees, as compensation, Mr. Hirsch was granted the right to purchase and purchased 7,000,000 shares of the Company's Common Stock at $.00001 per share.

In April, 1987, the Company entered into an agreement with Henry Fong, whereby Mr. Fong was employed as a management consultant to the Company for a period of one year. Mr. Fong's duties shall include advising the Company as to development and utilization of accounting procedures, evaluation of management personnel requirements including defining the requisite qualities of persons to perform the appropriate duties, and sales strategy. In lieu of cash fees, as compensation, Mr. Fong was granted the right to purchase and purchased 5,000,000 shares of the Company's Common Stock at $.00001 per share.

In May, 1987, the Company entered into an agreement with Covenant Marketing whereby Covenant Marketing will assist the Company to establish a sales organization; review cost of sales analysis with respect to projected sales; coordinate and help form policy as to pricing, co-op advertising, returns and customer services; and establish an appropriate requisition and licensing policy. In addition to reimbursement of expenses, Covenant Marketing will be paid a $2,000 monthly retainer for up to 40 hours of time and $100 per hour thereafter. Additionally, Covenant Marketing will receive a commission of 5% of sales occurring through the sales organization established by the Company and Covenant Marketing. The agreement is for the six months ending November 1, 1987 with no commitments for renewal.

1986 Incentive Stock Option Plan

The Company adopted the 1986 Incentive Stock Option Plan (the "ISO Plan") in September 1986 which was ratified by the stockholders of the Company in December 1986. The ISO Plan reserves 20,000,000 shares of the Company's Common Stock for option and sale. The Company had adopted a similar plan in 1985 which was not ratified. The ISO Plan provides for the grant of "incentive stock options" within the meaning of Section 422A of the Internal Revenue Code of 1954, as amended, (the "Code") to key employees. In the event that no trading market exists at the time the options are granted, the Board of Directors of the Company will determine the fair market value of the Company's Common Stock. The exercise price of incentive stock options granted under the ISO Plan may not be less than the fair market value of the Common Stock of the Company on the day of grant, except that such price may not be less than 110% of such fair market value for options granted to employees who own stock possessing at least ten percent of the voting power of all stock of the Company. The Company may not grant any options to any employee that are first exercisable during any one calendar year to the extent the aggregate fair market value of the stock (determined at the time the options are granted) exceeds $100,000.

The Company in January 1987, granted options to purchase a total of 12,000,000 shares to two Officers and Directors of the Company, at an exercise price of $.02 per share, of which 8,000,000 were exercisable when issued and the balance will become exercisable in January 1988.

CERTAIN TRANSACTIONS

Messrs. Richard W. Lewis, Joseph Lyons and Frank Schwartz, directors and/or officers of the Company, are also the controlling shareholders and officers and directors of Enhanced Technology Associates ("ETA"), which holds 128,500,000 shares of the Company's Common Stock purchased for cash in an amount equal to $.00001 per share in August 1985. ETA shares represent 38.15% of the outstanding Common Stock prior to the Offering and 30.93% of the Common Stock assuming the exercise of 100% of the Redeemable Warrants. By virtue of their ownership of ETA's common stock

and ETA's ownership of the Company's Common Stock and/or their management positions and organizational efforts, Messrs. Lewis, Lyons and Schwartz and ETA may be deemed to be "parents" and "promoters" of the Company as those terms are defined in the Act, and the regulations thereunder. Additionally, Messrs. Lewis, Lyons and Schwartz will devote some of their time to the operations of ETA. See "MANAGEMENT" and "PRINCIPAL SHAREHOLDERS." ETA had purchased an additional 9,000,000 shares of the Company's Common Stock at $.00001 per share in August 1985. In February and March 1986, it sold 8,000,000 shares of the Company's Common Stock at $.00001 per share to certain persons, some of whom loaned the Company $75,000 at 12%. This loan was repayed from the proceeds of the Company's offering of Units. ETA transferred 1,000,000 of its shares of the Company's Common Stock to an attorney in settlement of certain fees it had incurred. Additionally, ETA had sold 5,000,000 shares of the Company's Common Stock to a former consultant of the Company at $.00001 per share, but repurchased them at the same price in September 1986.

With respect to the loans made to the Company in February-March 1986, Ralph Grills, Jr., a principal shareholder, was paid $4,000 for his services rendered as a finder. Ralph H. Grills purchased 8,500,000 shares and 2,500,000 shares in private transactions for $.00001 per share in November 1985. Mr. Grills purchased an additional 1,000,000 shares from the Company for $.00001 per share and in consideration of his loaning the Company $10,000 in November 1985. In March 1986, Mr. Grills purchased an additional 3,000,000 shares from the Company and 2,000,000 shares from ETA for consideration of $.00001 per share. Additionally, in January 1987, Mr. Grills received 2,500,000 shares from Charles K. Reddien and transferred an aggregate of 1,000,000 shares to two individuals for no consideration. Further, in January 1987, Mr. Grills transferred 5,000,000 shares of Common Stock to a partnership of which Mr. Grills is a partner, S & G Partnership and S & G Partnership received an additional 3,000,000 shares from another individual for no consideration. See "PRINCIPAL SHAREHOLDERS."

In August 1985, Charles H. Reddien, Director of the Company, and his wife, P. Gayle Reddien, purchased an aggregate of 17,500,000 shares of the Company's Common Stock at a price of $.00001 per share. In January 1987, Mr. Reddien transferred 2,500,000 shares to Ralph Grills Jr. for no consideration. See "PRINCIPAL SHAREHOLDERS."

ETA may, subject to the rights with respect to certain products and a limited right of first refusal granted to the Company in the Development and License Agreement entered into with ETA, compete with the Company. Further, the Development and License Agreement may not be deemed an arms-length transaction and may contain terms less favorable to the Company than would an agreement negotiated between the Company and an unaffiliated party. See "BUSINESS—Development and License Agreement."

The Company subleases approximately 2,500 square feet located at 123 and 125 Duke Ellington Boulevard, New York, NY 10025 from Joseph Lyons, President, Secretary and a Director of the Company. Pursuant to its lease, the Company pays to Mr. Lyons an amount equivalent to that amount Mr. Lyons pays pursuant to his primary lease for that square footage. Mr. Lyons resides in such occupied space at no cost to him. See "BUSINESS—Facilities."

In November 1985 the Company sold 10,000,000 shares of its Common Stock to certain persons at $.00001 per share and in consideration of the purchasers of those shares loaning the Company an aggregate of $100,000. See "USE OF PROCEEDS" and "PRINCIPAL SHAREHOLDERS."

In April 1986 the Company sold 15,000,000 shares of its Common Stock to Jack Godler, an officer of the Company, at $.00001 per share. In April 1987, the Company sold an additional 1,200,000 shares to Mr. Godler at $.01 per share. See "PRINCIPAL SHAREHOLDERS."

In January-April, 1987, the Company, issued to certain persons loaning the Company an aggregate of $56,000, in Convertible Notes which are due December 31, 1989 and are convertible into the Company's Common Stock at $.025. The Notes bear no interest, but the holders will receive an aggregate of .8% of the Company's adjusted gross revenues from sales until they have received an aggregate of $56,000. The Company agreed to pay a 7½% finders fee with respect to the Notes.

In January of 1987, the Company sold 5,000,000 shares of its Common Stock for an aggregate consideration of $1,000 to a consultant to the Company and granted such consultant a two-year option on 2,000,000 shares of Common Stock at $.05 per share. See "MANAGEMENT—Consulting Agreements."

In April 1987, the Company sold an aggregate of 12,000,000 shares of its Common Stock to two consultants to the Company in consideration of the payment of an aggregate of $120 and the rendering of services. See "MANAGEMENT—Consulting Agreements."

In May 1987, the Company sold to certain persons, an aggregate of 9,000,000 shares in consideration of the payment of an aggregate of $90 and such persons loaning the Company an aggregate of $85,000 on a short term basis. One of such persons, has been granted a right of first refusal on the use of VIRTUOSO® SOFTWARE for the architectural market. See "USE OF PROCEEDS."

PRINCIPAL SHAREHOLDERS

The following table sets forth the holdings of Common Stock by each person who, as of the date of this Prospectus, holds of record or is known by the Company to own beneficially more than 5% of the outstanding Common Stock of the Company, by each Director and by all officers and Directors as a group.

			Percentage of Class of Shares Outstanding	
Name and Address of Beneficial Owner	Title of Class	Amount and nature of beneficial Ownership	Prior to Offering	Assuming 100% of Warrants Exercised
Enhanced Technology Associates, Inc.(1) 125 Duke Ellington Boulevard New York, NY 10025	Common	128,500,000	37.2%	30.2%
Jack Godler(2) 226-10 137th Avenue Laurelton, NY 11413	Common	16,200,000	4.7%	3.8%
Ralph H. Grills(3) 1888 South Jackson Denver, CO 80210	Common	23,500,000	6.8%	5.5%
Charles H. Reddien(4) 7734 So. Elm Ct. Littleton, CO 80122	Common	15,000,000	4.3%	3.5%
Officers and Directors as a Group (four persons)	Common	159,700,000	46.2%	37.6%

(1) Two of the three officers and three of the four Directors of the Company are principal shareholders of ETA which owns 128,500,000 of the Common Stock of the Company and such persons are therefore deemed to be the beneficial owners of such stock.

(2) Jack Godler purchased 15,000,000 shares of the Company's Common Stock from the Company at $.00001 per share in April 1986. Under certain circumstances, including the termination of Mr. Godler's employment, the Company has the option to repurchase some of these shares at $.00001.

(3) Includes 10,000,000 shares held by S & G Partnership.

(4) Charles H. Reddien is shown to be the beneficial owner of the 6,000,000 shares owned by his wife, P. Gayle Reddien.

DESCRIPTION OF SECURITIES

Units

78,611,300 Units were sold by the Company in a public offering that commenced April 14, 1986. Each Unit consisted of one share of Common Stock and one Redeemable Warrant to purchase one share of Common Stock. The Common Stock and Redeemable Warrant are separately transferable. The Transfer Agent for the Units, Common Stock and Redeemable Warrants is Corporate Stock Transfer, Inc., Suite 1000, 718 17th Street, Denver, Colorado 80202.

Common Stock

The Company is authorized to issue 500,000,000 shares of Common Stock, par value $0.00001 per share, of which 345,811,300 shares are currently issued and outstanding. Holders of Common Stock are entitled to one vote for each share of Common Stock held by them at all meetings of shareholders, including meetings to elect Directors. The Common Stock is not entitled to conversion or preemptive rights and is not subject to redemption. Upon any liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share pro rata in the assets of the Company available for distribution.

The outstanding shares of Common Stock and the Common Stock offered hereby upon the completion of the Offering will be fully paid and non-assessable.

Non-Cumulative Voting. The shares of Common Stock of the Company are not entitled to cumulative voting rights, which means that the holders of more than fifty percent of the outstanding Common Stock will have the ability to elect all of the Directors of the Company, and in such event the holders of the remaining shares will not be able to elect any of the Directors. Upon completion of the Offering, the non-public shareholders of the Company will own 62.2% of the then outstanding Common Stock of the Company, assuming the exercise of 100% of the Warrants (exclusive of any Common Stock represented by exercise of any outstanding options or other warrants) and will probably have the ability to elect the Directors of the Company.

Dividends. The Company has not paid any dividends on its Common Stock. The Board of Directors of the Company presently intends to use earnings, if any, to finance development and operations of the Company for other corporate purposes and does not anticipate declaring any dividends on its Common Stock in the foreseeable future.

Redeemable Warrants

The Redeemable Warrants were issued pursuant to the terms of a Warrant Agreement dated as of April 14, 1986 (the "Warrant Agreement") between the Company and the Warrant Agent, a copy of which was filed with the Registration Statement covering the offering of the Units. The following is a summary statement of the terms of the Warrants and does not purport to be complete and is qualified in its entirety by reference to the Warrant Agreement.

Each Redeemable Warrant is exercisable to purchase one share of Common Stock at $.025 per share. (The Board of Directors of the Company in April 1987, authorized the reduction of the exercise price to $.015 for those Redeemable Warrants exercised by July 31, 1987.) The Redeemable Warrants and shares of Common Stock are separately transferable. Unless exercised, the Redeemable Warrants will automatically expire October 14, 1987.

The Warrants are redeemable, during the exercise period, by the Company at a price of $.0001 per Redeemable Warrant upon 30 days' notice to the registered holder, regardless of the price at which the Common Stock is then trading.

While the Redeemable Warrants do contain some general antidilution provisions, they do not contain provisions protecting against dilution resulting from the sale of additional Common Stock at a price less than the exercise price of the Redeemable Warrants. In the event of the complete liquidation and dissolution of the Company, the Redeemable Warrants terminate. Holders of Warrants do not have any voting or other rights as shareholders of the Company and are not entitled to dividends.

MANNER OF OFFERING

The Company is offering 78,611,300 shares of Common Stock issuable upon exercise of the Company's outstanding Redeemable Warrants. Holders of the Redeemable Warrants have until 5:00 P.M., New York time on October 14, 1987 to exercise such Warrants, after which time such Warrants will expire and be without value, unless such date is extended by the Company. The Warrants may be exercised in the manner set forth under the heading "HOW TO EXERCISE YOUR WARRANTS".

The price per share of Common Stock to be acquired upon exercise of the Warrants shall initially be $.015. After July 31, 1987, such exercise price shall increase to $.025 per share of Common Stock to be acquired. The Warrants shall be deemed to have been exercised on the date on which a duly executed warrant certificate and payment are presented and surrendered to the Warrant Agent, Corporate Stock Transfer, Inc., Suite 1000, 718 17th Street, Denver, Colorado 80202.

The Common Stock issuable upon exercise of the Redeemable Warrants has been qualified or is exempt from qualification under the laws of Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Maryland, Nevada, New Jersey, New York and Utah and the District of Columbia. Only residents of such jurisdictions may exercise the Redeemable Warrants pursuant to this offering. Warrants held by residents of states other than those listed above are not presently exercisable and shall have no value if not sold prior to the expiration date thereof, unless the Company qualifies the Offering in other states or determines that an exemption from qualification is available. The Company in its sole discretion may seek such qualification in states other than those listed above, but shall have no obligation to do so.

No underwriter or other selling agent has been engaged to offer or sell the shares offered hereby on behalf of the Company, and the Company does not intend to pay any commissions, or grant any discounts or concessions, in connection with the sale of such shares.

LEGAL MATTERS

The firm of David A. Weil, P.C., 383 Lafayette Street, Suite 304, New York, New York 10003 has acted as Counsel to the Company. David A. Weil the principal of such firm owns 10,921,667 shares of Common Stock and 5,255,000 Redeemable Warrants. Meyers Tersigni Kaufman Lurie Feldman & Gray, 630 Third Avenue, New York, N.Y. 10022 has acted as Special Counsel to the Company with regard to certain licensing matters. Both law firms also perform legal services for ETA.

EXPERTS

The financial statements included in this Prospectus have been examined by Ernst & Whinney, independent accountants, for the periods indicated in their report thereon, appear elsewhere herein, and are being so included in reliance on such report, given on the authority of said firm as experts in auditing and accounting.

INTERIM FINANCIAL DATA

The unaudited interim financial statements for the periods ended March 31, 1986 and 1987, appearing elsewhere herein, include all adjustments (consisting only of normal recurring accruals) which are, in the opinion of management, necessary for a fair presentation of the results of operations for such interim periods.

VIRTUSONICS CORPORATION
(A Development Stage Corporation)

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Directors and Shareholders
Virtusonics Corporation
New York, New York

We have examined the balance sheet of Virtusonics Corporation, a development stage corporation, as of June 30, 1986 and the related statements of operations, stockholders' deficiency and changes in financial position for the period from July 2, 1985 (inception) through June 30, 1986. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in Note A, the Company's ability to commence its proposed operations and operate as a going concern is contingent upon the availability of cash flow from operations and/or the obtaining of additional financing. The financial statements referred to above have been prepared on a going-concern basis which contemplates realization of assets and liquidation of liabilities in the ordinary course of business. The financial statements do not include any adjustments related to the recoverability of recorded asset amounts or the amounts of liabilities that might be necessary should the Company be unable to operate as a going concern.

In our opinion, subject to the effects of such adjustments, if any, as might be required if the Company is unable to obtain cash flow from operations and/or additional financing, the aforementioned financial statments present fairly the financial position of Virtusonics Corporation as of June 30, 1986 and the results of its operations and changes in its financial position for the period from July 2, 1985 (inception) through June 30, 1986, in conformity with generally accepted accounting principles.

ERNST & WHINNEY

New York, New York
September 11, 1986

VIRTUSONICS CORPORATION
(A Development Stage Corporation)

BALANCE SHEETS

ASSETS

	March 31, 1987 (Unaudited)	June 30, 1986
CURRENT ASSETS		
Prepaid expenses	$ 7,523	
Total Current Assets	7,523	
FURNITURE AND EQUIPMENT, at cost—net of accumulated depreciation of $3,778 and $1,053, respectively	15,405	$ 5,965
DEFERRED REGISTRATION STATEMENT EXPENSES—Note B		115,034
	$ 22,928	$120,999

LIABILITIES AND STOCKHOLDERS' (DEFICIENCY)

	March 31, 1987 (Unaudited)	June 30, 1986
CURRENT LIABILITIES		
Accounts payable	$ 145,288	$162,686
Accrued expenses and sundry liabilities	121,863	57,255
Notes payable stockholders, including accrued interest of $9,759—Note D		184,759
Promissory notes payable, including accrued interest of $584—Note D	55,584	
Due to Enhanced Technology Associates—Notes A and F	90,381	58,400
Total Current Liabilities	413,116	463,100
SUBORDINATED NOTES PAYABLE—(including accrued interest of 1,080)—Note E	37,080	
STOCKHOLDERS' (DEFICIENCY)—Notes A, C, D, E and F		
Common Stock, $.00001 par value, 500,000,000 shares authorized, 323,611,300 and 240,000,000 shares issued and outstanding	3,236	2,400
Additional paid-in capital	694,537	74,750
(Deficit)—accumulated during the development stage	(1,125,041)	(419,251)
	(427,268)	(342,101)
COMMITMENTS, OTHER COMMENTS AND SUBSEQUENT EVENTS—Note F		
	$ 22,928	$120,999

See notes to financial statements.

VIRTUSONICS CORPORATION
(A Development Stage Corporation)

STATEMENTS OF OPERATIONS

	For the Period from July 2, 1985 (Inception) through March 31, 1987 (Unaudited)	Nine Months Ended March 31, 1987 (Unaudited)	For the Period from July 2, 1985 (Inception) through March 31, 1986 (Unaudited)	For the Period from July 2, 1985 (Inception) through June 30, 1986
Development and license fees—Note F	$ 380,000	$ 225,000	$110,000	$ 155,000
Salaries—Note F	225,324	123,425	77,037	101,899
Other general and administrative expenses	503,086	351,546	127,078	151,540
Interest expense	12,853	3,094	5,252	9,759
Depreciation	3,778	2,725		1,053
Net (Loss)	$ (1,125,041)	$ (705,790)	$(319,367)	$ (419,251)
(LOSS) PER SHARE—Note B		$ (.0023)	$(.0014)	$ (.0019)

See notes to financial statements.

VIRTUSONICS CORPORATION
(A Development Stage Corporation)

STATEMENTS OF STOCKHOLDERS' DEFICIENCY

	Common Shares	Amount ($.00001 Par Value)	Additonal Paid-In Capital	(Deficit)
Issuance of shares for cash on August 9, 1985	200,000,000	$2,000		
Issuance of shares for cash in September 1985	25,000,000	250	$ 74,750	
Issuance of shares for cash in November 1985—Note D	10,000,000	100		
Repurchase of shares on November 30, 1985	(10,000,000)	(100)		
Repurchase of shares in March 1986	(11,500,000)	(115)		
Issuance of shares for cash in March 1986	11,500,000	115		
Issuance of shares for cash in April 1986	15,000,000	150		
Net (loss) for the period from July 2, 1985 (inception) through June 30, 1986				$ (419,251)
Balance June 30, 1986	240,000,000	2,400	74,750	(419,251)
Issuance of shares for cash in August 1986 less $215,454 of expenses of the offering—Note A	78,611,300	786	569,837	
Issuance of shares for services rendered in January 1987	5,000,000	50	49,950	
Net (loss) for the nine months ended March 31, 1987				(705,790)
Balance March 31, 1987 (Unaudited)	323,611,300	$3,236	$694,537	$ (1,125,041)

See notes to financial statements.

VIRTUSONICS CORPORATION
(A Development Stage Corporation)

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	For the Period from July 2, 1985 (Inception) through March 31, 1987	Nine Months Ended March 31, 1987	For the Period from July 2, 1985 (Inception) through March 31, 1986	For the Period from July 2, 1985 (Inception) through June 30, 1986
	(Unaudited)	(Unaudited)	(Unaudited)	
APPLICATION OF FUNDS				
Operations:				
Net loss	$1,125,041	$ 705,790	$ 319,367	$ 419,251
Deduct—item not requiring outlay of working capital:				
Depreciation	(3,778)	(2,725)		(1,053)
Total for Operations	1,121,263	703,065	319,367	418,198
Deferred registration statement expenses		(115,034)	40,000	115,034
Furniture and equipment	19,183	12,165	3,869	7,018
Total Funds Applied	1,140,446	600,196	363,236	540,250
SOURCE OF FUNDS				
Proceeds from issuance of loans	37,080	37,080		
Proceeds from issuance of common stock	697,773	620,623	77,100	77,150
Working Capital (Applied) Provided	$ (405,593)	$ 57,507	$ (286,136)	$ (463,100)
CHANGES IN COMPONENTS OF WORKING CAPITAL				
Prepaid expenses	$ 7,523	$ 7,523		
Due to Enhanced Technology Associates	(90,381)	(31,981)	$ (8,400)	$ (58,400)
Accounts payable	(145,288)	17,398	(39,102)	(162,686)
Accrued expenses and sundry liabilities	(121,863)	(64,608)	(60,917)	(57,255)
Loans payable and notes payable/stockholders	(55,584)	129,175	(177,717)	(184,759)
Working Capital (Applied) Provided	$ (405,593)	$ 57,507	$ (286,136)	$ (463,100)

See notes to financial statements.

VIRTUSONICS CORPORATION
(A Development Stage Corporation)

NOTES TO FINANCIAL STATEMENTS

(Unaudited with respect to the periods ended March 31, 1987 and 1986)

Note A—Organization, Public Offering and Going Concern

The Company was organized as a Delaware corporation on July 2, 1985, to arrange, as a licensee pursuant to a licensing agreement (see Note E), for the manufacture, marketing and distribution of certain computer software and other related products under development and to be developed by Enhanced Technology Associates, Inc. ("ETA"), the controlling shareholder of the Company. As of March 31, 1987 and June 30, 1986 ETA, owns approximately 40% and 52%, respectively of the outstanding common stock of the Company. Officers and certain directors of the Company are officers, directors and principal shareholders of ETA.

In August 1986, the Company sold, in an initial public offering ("Offering"), 78,611,300 Units, each Unit consisting of one share of the Company's Common Stock and a warrant to purchase one share of the Company's Common Stock at $.025 per share and received net proceeds of approximately $571,000. The Company utilized $175,000 of the net proceeds to repay its notes payable to stockholders (see Note D). The warrants are redeemable at $.0001 per warrant at the option of the Company, upon 30 days notice and will expire on October 14, 1987. In April 1987, the Board of Directors of the Company agreed to reduce the warrants exercise price to $.015 per share for the period of one month from the effective date of the post effective amendment to the registration statement.

In connection with the Company's initial public offering of units, the Company granted to its underwriter a warrant to purchase 7,861,130 shares of common stock at $.013 per share through April 1991. The Company has reserved such shares.

The remaining proceeds of the Offering were used for product development and for working capital. The Company's continued operation will be dependent upon the availability of positive cash flow from operations or its ability to raise additional financing. There can be no assurance that positive cash flow or additional financing would be available to the Company to meet its financial requirements.

Note B—Significant Accounting Policies

Development Stage Enterprise: The efforts of the Company since inception have been devoted to financial planning, raising capital and development of marketing strategies. No revenues have been derived from operations. Accordingly, the financial statements are presented in accordance with guidance given by Financial Accounting Standards Board Statement No. 7, "Accounting and Reporting by Development Stage Enterprises."

Deferred Registration Statement Expenses: Upon the successful completion of the initial public offering, which occurred in August 1986, additional paid-in capital was reduced by the deferred registration statement expenses.

(Loss) Per Share: (Loss) per share is based on the weighted average number of common shares outstanding during the periods (approximately 315,500,000 shares for the nine months ended March 31, 1987; 221,900,000 shares for the period from July 2, 1985 (inception) through March 31, 1986; and 226,000,000 shares for the period from July 2, 1985 (inception) through June 30, 1986).

Note C—Capital Stock

In December 1986, the Company adopted an incentive stock option plan ("the Plan") whereby options to purchase an aggregate of 20,000,000 shares of the Company's common stock may be granted to key employees, as defined. The exercise price of the options granted under the Plan may not be less than the then fair market value of Company's common stock on the date of grant. In January 1987 the Company granted to certain Officers and Directors options to purchase 12,000,000 shares of the Company's common stock at $.02 per share for which options for 8,000,000 shares are currently exercisable with the balance becoming exercisable in January 1988.

In January 1987, the Company entered into an agreement with a public relations firm to provide public relations services through September 30, 1987. The firm received $2,400 for its services rendered during the first three months and purchased 5,000,000 shares of the Company's common stock for $1,000. The firm is to receive $15,000 and was granted an option to purchase 2,500,000 shares of the Company's common stock for $.05 per share for its services to be rendered from April 1, 1987 through September 30, 1987.

In January 1987, an employee agreed to accept 1,200,000 shares of the Company's common stock in lieu of $12,000 of accrued compensation. The stock was issued to the employee in April 1987.

Note D—Notes Payable

In November 1985, the Company issued $100,000 of promissory notes together with 10,000,000 shares of common stock for total proceeds of $100,000. The notes bear interest at 2% above a prime rate as defined.

In February and March 1986, the Company issued $75,000 of promissory notes. In connection therewith, the noteholders purchased 7,500,000 shares of the Company's outstanding common stock from ETA. The notes bear interest at 12% per annum.

In August 1986, all of the above notes, including accrued interest, were repaid.

In March 1987, the Company also issued $35,000 of promissory notes which bear interest at 2% above the prime rate per annum.

In March 1987, the Company also issued $20,000 of promissory notes which bear interest at 10%. In May 1987, the lender purchased 2,000,000 shares of the Company's common stock for $200.

Note E—Subordinated Notes Payable

In 1986, the Company borrowed $30,000. These loans bore interest at 2% above the prime rate per annum until January 1987 when the notes were converted into $30,000 of callable convertible participating subordinated notes. In addition, in January 1987, the Company issued an additional $6,000 of callable convertible participating subordinated notes. These notes are convertible into the Company's common stock at $.025 per share, and are due in full on December 31, 1989. The notes entitle

the holder to the greater of (i) an aggregate of .8% of the Company's adjusted gross revenues as defined, up to a maximum contingent interest of $56,000 or (ii) 10% simple interest for the period that the principal is outstanding. The notes are subordinated to substantially all of the Company's present and future obligations. (See Note F.)

Note F—Commitments, Other Comments and Subsequent Events

Pursuant to the licensing agreement referred to in Note A, the Company, beginning in October 1985, is required to pay to ETA $15,000 a month for 7 months and $25,000 a month thereafter for 24 months, or until certain products are developed, whichever comes first. in addition, the Company is required to pay ETA a royalty of 9% of its gross sales, and 2% of its pretax profits, both as defined.

The Company has employment agreements with two officers who are also officers and directors of ETA. The agreements require that annual aggregate salaries of $85,000 be paid to these employees through December 31, 1987.

On October 1, 1985, the Company subleased office space from the president of the Company. The sublease required monthly payments of approximately $4,000 through September 30, 1986 and is continuing on a month-to-month basis.

In April 1986, the Company entered into an employment agreement with an additional officer which provides, among other matters, for an annual base salary of $48,000. In connection therewith, the officer purchased 15,000,000 shares of the Company's common stock for $150.

In April 1986, the Company entered into a one year consulting agreement with a public relations firm which provided for a monthly fee of $2,500 (aggregating $30,000) for services to be rendered by the consultant. In connection therewith, the consultant purchased 5,000,000 shares of the Company's common stock from ETA. In September 1986, the agreement was terminated and ETA repurchased 5,000,000 shares of the Company's common stock from the public relations firm.

In April 1987, the Company agreed to sell 12,000,000 shares of its common stock to two consultants for $120 and services to be rendered.

In April 1987, the Company issued an additional $20,000 of callable convertible participating subordinated notes (see Note E).

In May 1987, the Company issued $85,000 of bridge loans. These loans bear interest at 10% per annum and are due the earlier of (i) 90 days from date of issue or (ii) when sufficient proceeds from the exercise of warrants have been received. The lenders also purchased 7,000,000 shares of the Company's common stock for $700. One of the lenders has been granted a right of first refusal on the use of certain software for a defined market.

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78,611,300 Shares

Common Stock

$.00001 Par Value

Virtusonics Corporation

PROSPECTUS

June 19, 1987